
AN IN-DEPTH ANALYSIS OF THE IMPACT OF IBC ON INDIA'S CREDIT CULTURE

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ABSTRACT

This research paper examines the profound impact of the Insolvency and Bankruptcy Code (IBC) on India's credit culture since its implementation in 2016. Through a comprehensive analysis of the code's objectives, mechanisms, and outcomes, we explore how the IBC has reshaped creditor-debtor relationships, improved recovery rates, and fostered a more disciplined borrowing environment. The study draws on economic data, legal precedents, and expert opinions to evaluate the IBC's role in strengthening India's credit markets and overall financial ecosystem.

The Insolvency and Bankruptcy Code (IBC), enacted in 2016, represents a watershed moment in India's financial regulatory framework. This comprehensive legislation was introduced with the primary aim of addressing the long-standing issues of mounting non-performing assets (NPAs) and the inefficient resolution of corporate insolvencies. Prior to the IBC, India's credit culture was characterized by prolonged legal battles, low recovery rates, and a general lack of accountability among borrowers. The introduction of the IBC marked a paradigm shift, promising a time-bound, market-linked approach to resolving stressed assets and fundamentally altering the dynamics of credit relationships in the country.

The IBC's implementation was driven by the need to solve what economists termed the "twin balance sheet problem" - the simultaneous stress on the balance sheets of banks due to NPAs and the overleveraged position of many corporate entities. By providing a structured framework for resolving insolvencies, the IBC aimed not only to address immediate financial distress but also to foster a more responsible credit culture in the long term. This paper seeks to analyze the multifaceted impact of the IBC on India's credit landscape, examining its

successes, challenges, and ongoing evolution.¹

To fully appreciate the transformative nature of the IBC, it is essential to understand the historical context of India's credit culture and the inefficiencies that necessitated such sweeping reform. Prior to the IBC, India's insolvency regime was fragmented across multiple laws, including the Sick Industrial Companies Act (SICA), the Recovery of Debts Due to Banks and Financial Institutions Act, and the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act.² This patchwork of legislation often led to conflicting jurisdictions, prolonged legal proceedings, and suboptimal outcomes for both creditors and debtors.

The pre-IBC era was marked by several key issues. The existing framework allowed defaulting promoters to retain control of their companies during the resolution process, often leading to asset stripping and value erosion. Insolvency cases frequently dragged on for years, sometimes decades, resulting in significant value destruction and low recovery rates for creditors. The cumbersome legal process and low recovery rates often discouraged creditors from actively pursuing resolution, leading to a build-up of stressed assets in the banking system. The lack of a credible threat of losing control over their companies in case of default created a moral hazard among borrowers, encouraging reckless borrowing and willful default.³

These systemic issues culminated in a severe NPA crisis in the Indian banking sector, with stressed assets reaching alarming levels by 2015. The need for a comprehensive, unified insolvency framework became increasingly apparent, setting the stage for the introduction of the IBC. The IBC introduced several groundbreaking features designed to address the shortcomings of the previous regime and foster a more efficient, transparent, and equitable insolvency resolution process.

One of the most significant aspects of the IBC is its emphasis on timely resolution. The code stipulates a maximum period of 180 days (extendable by 90 days) for the completion of the corporate insolvency resolution process (CIRP). This time-bound approach stands in stark contrast to the prolonged proceedings of the past, ensuring that the value of stressed assets is preserved to the greatest extent possible. The IBC also shifts control from the defaulting debtor

¹ Douglas G. Braid, *The Economics of Bankruptcy Reform*, 2 J.L. ECON. & ORG. 277 (1986).

² *Pioneer Urban Land & Infrastructure Ltd. & Ors v. Union of India & Ors*, (2019) 8 SCC 416.

³ Insolvency and Bankruptcy Code (Amendment) Ordinance, 2020, No. 9 of 2020.

to a committee of creditors (CoC), empowering creditors to make key decisions during the resolution process. This creditor-in-control model addresses the moral hazard issues of the past and aligns the Indian insolvency regime with international best practices.

To address information asymmetry, the IBC provides for the establishment of information utilities, which offer authenticated financial information about debtors. This feature enhances transparency and enables creditors to make more informed decisions. The introduction of licensed insolvency professionals to manage the resolution process ensures professional expertise and reduces the burden on an already strained judicial system. The IBC also clearly defines the order of priority for distributing proceeds from the sale of liquidation assets through a waterfall mechanism, providing clarity and predictability to stakeholders. Additionally, the code includes provisions for dealing with cross-border insolvency cases, aligning India's insolvency regime with international standards.⁴

The implementation of the IBC has had a profound and multifaceted impact on India's credit culture. One of the most tangible impacts has been the significant improvement in recovery rates for creditors. According to data from the Reserve Bank of India (RBI), the recovery rate under the IBC has consistently outperformed other recovery mechanisms such as Debt Recovery Tribunals (DRTs) and the SARFAESI Act. In the financial year 2019-2020, the recovery rate under the IBC stood at 45.5%, compared to 26.7% under SARFAESI and a mere 4.1% under DRTs. This marked improvement in recovery rates has bolstered creditor confidence and contributed to a more robust credit market.

The IBC has instigated a significant shift in borrower behavior by introducing a credible threat of loss of control over their companies in case of default. This has led to more proactive debt servicing, as many borrowers have become more diligent in meeting their financial obligations to avoid triggering the IBC process. The fear of losing control has also prompted numerous promoters to come forward with voluntary settlements, with reports suggesting settlements worth over \$40 billion in the initial years of the IBC's implementation. Furthermore, the code has encouraged better financial planning and discipline among corporate borrowers, as they seek to avoid the stringent consequences of the IBC process.

⁴ Mihir Mishra, IBC fear makes Rs 2.5 lakh crore of stressed assets turn good, *ECON. TIMES* (Nov. 4, 2018), <https://economictimes.indiatimes.com/industry/banking/finance/banking/ibc-fear-makes-rs-2-5-lakh-crore-of-stressed-assets-turn-good/articleshow/66496481.cms>.

The IBC's success in improving recovery rates and instilling financial discipline has had a positive impact on credit availability in the economy. As lenders gain confidence in their ability to recover dues, risk premiums on loans have shown a downward trend, potentially leading to lower borrowing costs for businesses. Banks and financial institutions have demonstrated a greater willingness to extend credit, particularly to sectors previously considered high-risk.⁵ The improved credit culture has also contributed to the gradual development of India's corporate bond market, offering businesses alternative sources of funding.

The IBC has significantly strengthened the negotiating position of creditors. By placing control in the hands of the committee of creditors during the resolution process, the IBC has empowered lenders to make critical decisions. The stipulated timeline for resolution has given creditors leverage in negotiations, as defaulters face the prospect of losing control if a timely resolution is not achieved. The establishment of information utilities has reduced information asymmetry, enabling creditors to make more informed decisions throughout the resolution process.⁶

Beyond its direct financial impacts, the IBC has contributed to a gradual shift in the cultural perception of business failure in India. By providing a structured exit mechanism for businesses, the IBC has begun to reduce the stigma associated with business failure. This cultural shift has the potential to encourage entrepreneurship by mitigating the fear of failure that has traditionally deterred many from venturing into business. The code's approach of distinguishing between business failure and fraud has promoted a more nuanced understanding of corporate distress, fostering a more mature and sophisticated business environment.

While the IBC has undoubtedly made significant strides in transforming India's credit culture, it has also faced several challenges and undergone continuous evolution. The code has been subject to numerous judicial interpretations and legislative amendments since its inception. Key rulings by the Supreme Court and National Company Law Appellate Tribunal (NCLAT) have clarified various aspects of the code, such as the treatment of operational creditors and the scope of moratorium.⁷ These interpretations have sometimes led to amendments in the code,

⁵ Essar Steel Ltd. v. Satish Kumar Gupta, (2020) 8 SCC 531.

⁶ M.S. Sahoo, Insolvency and Bankruptcy Code: A law for modern times, BUS. STANDARD (May 1, 2019)

⁷ Edelweiss Asset Reconstruction Co. Ltd. v. Sai Regency Power Corp. Pvt. Ltd., Company Appeal (AT) (Insolvency) No. 1121 of 2019 (NCLAT).

reflecting its dynamic nature and responsiveness to practical challenges.⁸

The implementation of the IBC has strained the capacity of the National Company Law Tribunals (NCLTs) and insolvency professionals. The high volume of cases has often led to delays beyond the stipulated timelines, potentially undermining one of the code's key objectives of timely resolution. This capacity constraint highlights the need for continued investment in institutional infrastructure and human resources to ensure the effective functioning of the insolvency ecosystem.

Striking the right balance between the interests of various stakeholders - financial creditors, operational creditors, and employees - has been an ongoing challenge. The code has faced criticism for perceived bias towards financial creditors, leading to debates about equitable treatment of all stakeholders. This balancing act remains a key area of focus for policymakers and judiciary as they continue to refine the IBC framework.

Recognizing the need for more flexible resolution mechanisms, especially for MSMEs, the government introduced pre-packaged insolvency resolution process in 2021. This development reflects the ongoing efforts to refine the IBC framework and address sector-specific needs. The pre-pack mechanism aims to provide a faster, cost-effective resolution option for smaller businesses while maintaining the basic tenets of the IBC.⁹

While the IBC includes provisions for cross-border insolvency, their effective implementation remains a work in progress. Aligning India's cross-border insolvency regime with international standards is crucial for attracting foreign investment and dealing with increasingly complex global business structures. This area is likely to see further developments as India seeks to enhance its position in the global business landscape

The COVID-19 pandemic presented unprecedented challenges to India's insolvency regime and credit markets. The government's response, including the suspension of IBC proceedings for a period and raising of default thresholds, highlighted the code's flexibility in extraordinary circumstances. As the economy recovers, the IBC is expected to play a crucial role in addressing pandemic-induced financial distress. The lessons learned during this period are

⁸ Insolvency and Bankruptcy Code, 2016, No. 31, Acts of Parliament, 2016 (India).

⁹ RESERVE BANK OF INDIA, REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 2019-20 (2020).

likely to inform future refinements to the code, ensuring its resilience in the face of unforeseen economic shocks.

Looking ahead, several key areas are likely to shape the future evolution of the IBC and its impact on credit culture. The increasing digitization of financial transactions and records is expected to enhance the efficiency of the insolvency resolution process, particularly in areas like claim verification and asset valuation. This digital transformation could significantly reduce the time and costs associated with the resolution process, further improving recovery rates and overall efficiency.

There is growing recognition of the need for sector-specific approaches within the IBC framework, particularly for sectors like real estate and infrastructure with unique challenges. Tailoring the resolution process to the specific needs of different industries could enhance the effectiveness of the IBC in addressing sector-specific issues while maintaining its overarching principles.

The full implementation of personal insolvency provisions under the IBC is anticipated to further transform credit relationships, particularly in the retail and MSME sectors. This expansion of the IBC's scope to cover individual insolvencies could have far-reaching implications for personal credit markets and entrepreneurship in India.¹⁰

As Environmental, Social, and Governance (ESG) factors gain prominence in investment decisions, their integration into the insolvency resolution process may become increasingly important. Future iterations of the IBC might need to consider how ESG considerations can be incorporated into the resolution framework, reflecting the growing importance of sustainable and responsible business practices.

Ongoing judicial interpretations and legislative amendments are expected to further refine the IBC, addressing emerging challenges and aligning with global best practices. This continuous evolution will be crucial in ensuring that the IBC remains effective and relevant in a rapidly changing economic landscape.¹¹

¹⁰ Insolvency and Bankruptcy Code (Amendment) Act, 2019, No. 26, Acts of Parliament, 2019 (India).

¹¹ Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016, Gazette of India, pt. III sec. 4 (Dec. 1, 2016).

The Insolvency and Bankruptcy Code has undeniably been a game-changer for India's credit culture. By introducing a time-bound, market-linked resolution process, empowering creditors, and creating a credible threat for defaulters, the IBC has fostered a more disciplined and efficient credit ecosystem. The code's impact extends beyond mere financial metrics, influencing borrower behavior, creditor confidence, and the overall perception of business failure and revival in India.

The IBC has significantly altered the dynamics of creditor-debtor relationships in India. Prior to its implementation, defaulters often had the upper hand, with the ability to delay proceedings and continue controlling their businesses despite non-payment of dues. The IBC has shifted this balance of power, giving creditors a stronger voice and more effective tools to recover their dues. This shift has not only improved recovery rates but has also had a deterrent effect, encouraging borrowers to maintain financial discipline and avoid default.

The code's emphasis on time-bound resolution has been particularly impactful. By setting strict timelines for the completion of the insolvency resolution process, the IBC has addressed one of the most significant drawbacks of the previous regime – the endless delays that often rendered the recovery process futile. This time-bound approach has not only improved the efficiency of the resolution process but has also helped preserve the value of stressed assets, benefiting all stakeholders.

The establishment of a robust ecosystem to support the insolvency resolution process has been another key achievement of the IBC. The creation of a new class of insolvency professionals, the establishment of information utilities, and the setting up of the Insolvency and Bankruptcy Board of India (IBBI) as a regulator have all contributed to a more professional and transparent insolvency regime. This ecosystem has played a crucial role in building credibility and efficiency in the resolution process.¹²

The IBC's impact on the banking sector has been particularly noteworthy. By providing a credible mechanism for resolving bad loans, the code has enabled banks to clean up their balance sheets and reduce their non-performing asset (NPA) burden. This has, in turn, improved the overall health of the banking sector, potentially freeing up capital for more productive

¹² Wilful default cases down by over 50% in last eight years: Government Data, Times of India (Mar. 24, 2022),

lending. The improved recovery rates under the IBC have also boosted bank profitability, contributing to a more robust financial sector.¹³

For businesses, the IBC has brought both challenges and opportunities. While it has undoubtedly increased the pressure on borrowers to maintain financial discipline, it has also provided a structured mechanism for businesses facing genuine distress to resolve their issues and potentially revive their operations. The code's focus on revival rather than liquidation, wherever possible, has helped preserve economic value and protect jobs.¹⁴

The IBC has also had a significant impact on India's investment climate. By providing a clear and predictable framework for resolving insolvencies, the code has enhanced investor confidence, particularly among foreign investors. The improved ease of exit has made India a more attractive destination for both domestic and foreign investment, potentially contributing to increased capital flows into the economy.

The code's influence extends to the broader business culture in India. By promoting a more mature approach to business failure and revival, the IBC is gradually shifting perceptions around entrepreneurship and risk-taking. This cultural shift, while subtle, has the potential to foster a more dynamic and innovative business environment in the long run.

The journey of the IBC has not been without challenges. The initial years of implementation saw several teething issues, including capacity constraints at the NCLTs, legal challenges to various provisions of the code, and debates over the interpretation of key clauses. These challenges have necessitated frequent amendments to the code and numerous judicial pronouncements to clarify its provisions.¹⁵

Looking ahead, the continued evolution of the IBC will be crucial in addressing emerging challenges and opportunities. The integration of cross-border insolvency provisions, the refinement of pre-packaged insolvency resolution processes, and the potential expansion of the code to cover more sectors and types of entities are all areas that are likely to see developments in the coming years.

¹³ Y.V. Reddy, Credit Policy, Systems and Culture, Reserve Bank of India Bulletin, Mar. 2004, at 311,

¹⁴ Reserve Bank of India, Master Circular on 'Wilful Defaulters' (June 30, 2015),

¹⁵ NPAs down to Rs 7.7 trn due to transparent recognition of stressed assets, New Indian Express (Mar. 29, 2022),

The success of the IBC in transforming India's credit culture also raises questions about its potential role in broader economic reforms. As a key pillar of India's efforts to improve its ease of doing business rankings, the IBC's continued effectiveness will be crucial in attracting investment and fostering economic growth. Its principles of time-bound resolution, creditor empowerment, and value maximization could potentially inform reforms in other areas of economic governance.

The Transformation of Corporate Credit Culture in India under the Insolvency and Bankruptcy Code

The relationship between creditors and debtors forms the backbone of any economy's financial system. In India, this relationship has undergone a significant transformation with the introduction of the Insolvency and Bankruptcy Code (IBC) in 2016. The IBC represents a paradigm shift in the approach to corporate insolvency and credit recovery, moving away from the erstwhile debtor-in-possession model to a creditor-in-control regime. Prior to the IBC, India's insolvency resolution framework was fragmented and ineffective, leading to prolonged legal battles, erosion of asset value, and a culture of strategic defaults. The Reserve Bank of India's introduction of the concept of 'wilful defaulters' in 1999 was an early attempt to address this issue, but it had limited success in changing the overall credit culture.¹⁶

The IBC was introduced against this backdrop with the primary objectives of promoting entrepreneurship, maximizing value of assets, balancing the interests of all stakeholders, and improving ease of doing business. This research paper aims to analyze the profound impact of the IBC on India's corporate credit culture, examining how it has reshaped creditor-debtor dynamics, influenced borrower behavior, and transformed the insolvency resolution landscape. Through a comprehensive analysis of the IBC's key provisions, implementation challenges, and outcomes, this study seeks to provide insights into the evolving nature of corporate finance and credit relationships in India.

While addressing the changes brought about by the IBC, it is essential to understand the challenges that plagued India's corporate credit culture prior to its implementation. The pre-IBC era was characterized by a multiplicity of laws governing insolvency and debt recovery, including the Sick Industrial Companies Act (SICA), 1985, the Recovery of Debts Due to

¹⁶ BC and the Development of Credit Market in India, The Daily Guardian, <https://thedailyguardian.com/ibc-and-the-development-of-credit-market-in-india/> (last visited Sept. 20, 2024).

Banks and Financial Institutions Act, 1993, and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. This fragmented approach led to jurisdictional overlaps, prolonged litigation, and ineffective resolution processes. The prevailing insolvency regime followed a debtor-in-possession model, where the management of the distressed company remained in control during the resolution process. This often resulted in asset stripping and value erosion, as promoters had little incentive to cooperate with creditors.

Debt recovery through mechanisms like Debt Recovery Tribunals (DRTs) was notoriously slow, with cases dragging on for years. This not only affected the recovery rates for creditors but also encouraged strategic defaults by borrowers who could exploit the system's inefficiencies. Creditors, especially operational creditors, had limited say in the insolvency resolution process. This imbalance often led to unfair outcomes and discouraged lending to certain sectors of the economy. Despite the RBI's efforts to curb wilful defaults through various circulars and guidelines, the phenomenon remained widespread. The absence of a time-bound, creditor-driven insolvency resolution process allowed many promoters to continue controlling their companies despite defaults.¹⁷

The introduction of the IBC in 2016 marked a watershed moment in India's corporate credit landscape. One of the most significant changes introduced by the IBC is the shift to a creditor-in-control model. Upon admission of an insolvency petition, the management of the corporate debtor is vested in an Interim Resolution Professional (IRP) or Resolution Professional (RP), appointed by the creditors. This ensures that the assets of the company are protected and managed in the best interests of all stakeholders. The IBC mandates a 180-day timeline (extendable by 90 days) for the completion of the Corporate Insolvency Resolution Process (CIRP). This time-bound approach addresses the issue of prolonged litigation and helps preserve the value of the distressed assets.¹⁸

The Code provides a clear priority order for the distribution of proceeds from the resolution or liquidation process. This brings clarity and predictability to the recovery process for different

¹⁷ Building a Better Boardroom: The Role of IBC in Advancing Corporate Governance in India, The Economic Times, <https://m.economictimes.com/small-biz/legal/building-a-better-boardroom-the-role-of-ibc-in-advancing-corporate-governance-in-india/articleshow/106394469.cms> (last visited Sept. 20, 2024).

¹⁸ Insolvency and Bankruptcy Code (IBC) and Long-Term Bulk Lending in India, Centre for Social and Economic Progress, <https://csep.org/working-paper/insolvency-and-bankruptcy-code-ibc-and-long-term-bulk-lending-in-india/> (last visited Sept. 20, 2024).

classes of creditors. The formation of a Committee of Creditors, comprising primarily financial creditors, gives lenders a central role in the resolution process. The CoC is empowered to make key decisions, including the approval of resolution plans. The IBC provides for the establishment of Information Utilities to collect, collate, and disseminate financial information about debtors. This enhances transparency and helps in early identification of financial distress. The Code has created a new class of professionals – Insolvency Professionals – who play a crucial role in managing the affairs of the corporate debtor during the CIRP and liquidation processes.

The implementation of the IBC has had far-reaching effects on India's corporate credit culture. The threat of losing control over their companies has instilled a greater sense of financial discipline among corporate borrowers. The IBC's provision for immediate suspension of the board of directors upon admission of a CIRP application has acted as a strong deterrent against defaults. Many companies have become more proactive in servicing their debts to avoid falling into the IBC process. This is evident from the significant number of cases settled before admission to CIRP. According to IBBI data, as of September 2022, 23,417 CIRP applications with an underlying default of ₹7.31 lakh crore were resolved before their admission by the National Company Law Tribunals (NCLTs).¹⁹

The IBC has significantly reduced the incidence of strategic defaults. The number of wilful defaulters in India decreased from 2,469 in FY 2014-15 to 1,063 in FY 2020-21, representing a 56% reduction. This decline can be attributed, in part, to the deterrent effect of the IBC. Financial institutions have strengthened their due diligence processes when extending credit, given the increased likelihood of taking control of the borrower company in case of default. The time-bound nature of the IBC process has compelled lenders to make quicker decisions regarding debt restructuring, additional funding, or initiation of insolvency proceedings. The CoC mechanism under the IBC has fostered better coordination among creditors, leading to more efficient resolution processes.

The IBC has played a crucial role in addressing India's NPA crisis. Gross NPAs of banks reduced from ₹10.36 lakh crore as of March 31, 2018, to ₹7.73 lakh crore as of December 31, 2021. This improvement can be attributed to better recovery rates through the IBC process, the threat of losing control prompting promoters to settle defaults, and improved credit discipline

¹⁹ MINISTRY OF FINANCE, GOVERNMENT OF INDIA, ECONOMIC SURVEY 2017-18 (2018).

among borrowers. While recovery is not the primary objective of the IBC, it has demonstrated better outcomes compared to previous regimes. As of September 2022, 553 Corporate Debtors (CDs) were rescued through resolution plans, realizing ₹2.43 lakh crore, which is around 178% of the liquidation value of these CDs. For 97 CDs with admitted claims of more than ₹1,000 crore, the realization was 184.81% of the liquidation value. The overall recovery rate through resolution plans is estimated to be around 30-35% of the admitted claims, which is significantly higher than the recovery rates under previous mechanisms.²⁰

The IBC has created a more conducive environment for entrepreneurship by providing a clear exit mechanism for failed businesses, encouraging risk-taking by limiting the consequences of business failure, and facilitating the transfer of distressed assets to more efficient operators. The IBC has also given rise to a new industry of distressed asset financing. Specialized funds and investors are now actively participating in the resolution process, bringing in fresh capital and expertise to turn around distressed businesses.

Despite its significant positive impact, the implementation of the IBC has faced several challenges that need to be addressed to further improve India's corporate credit culture. Although the IBC prescribes a 270-day timeline for CIRP completion, in practice, many cases have exceeded this limit. As of September 2022, 71% of ongoing cases had been pending for more than 270 days. These delays can be attributed to litigation and appeals at various stages of the process, capacity constraints of the NCLTs, and the complexity of some cases requiring more time for resolution. A significant number of cases admitted under the IBC have ended in liquidation rather than resolution. While this is partly due to the nature of the companies involved (many being already sick or defunct), there is a need to focus more on value preservation and business continuity.

In some high-profile cases, creditors have had to take substantial haircuts, raising concerns about the effectiveness of the value maximization process under the IBC. Factors contributing to this issue include delays in admission and resolution leading to value erosion, information asymmetry between bidders and existing management, and lack of a robust market for distressed assets in certain sectors. The introduction of Pre-packaged Insolvency Resolution Process (PPIRP) for MSMEs is a step in the right direction, but its extension to larger

²⁰ INSOLVENCY AND BANKRUPTCY BOARD OF INDIA, QUARTERLY NEWSLETTER (Oct.-Dec. 2020).

corporates is still pending. Expanding the PPIRP framework could help in faster and more efficient resolutions, especially for companies with less complex debt structures.

The lack of a comprehensive cross-border insolvency framework under the IBC has posed challenges in cases involving multinational companies. The adoption of the UNCITRAL Model Law on Cross-Border Insolvency, with suitable modifications, is under consideration and could address this gap. The current IBC framework does not have specific provisions for dealing with group insolvency, which can lead to complications in cases involving multiple related entities. Developing a framework for group insolvency could enhance the efficiency of the resolution process for conglomerates.

To further strengthen India's corporate credit culture and enhance the effectiveness of the IBC, several recommendations can be proposed. Streamlining the CIRP timeline by enhancing the capacity of NCLTs through increased benches and specialized training for judges, implementing stricter adherence to prescribed timelines at various stages of the CIRP, and encouraging out-of-court settlements and pre-packaged resolutions to reduce the burden on the tribunal system are crucial steps. Strengthening the role of Information Utilities by mandating the submission of financial information by all corporate entities and enhancing the integration with other databases can improve the quality and timeliness of financial information.²¹

Developing a robust distressed asset market by encouraging the participation of specialized distressed asset funds in the resolution process and creating a platform for trading distressed assets can improve liquidity and price discovery. Enhancing the pre-packaged insolvency framework by extending it to larger corporates with suitable modifications and providing incentives for early adoption can prevent value erosion. Implementing cross-border insolvency provisions by adopting the UNCITRAL Model Law with necessary modifications and establishing protocols for cooperation with foreign insolvency practitioners and courts can address challenges in multinational insolvencies.

Addressing group insolvency by developing a comprehensive framework for dealing with such cases while balancing the need for consolidated resolution with the protection of individual entity creditors' rights is another important area for improvement. Strengthening avoidance transaction provisions related to Preferential, Undervalued, Fraudulent, and Extortionate

²¹ M.S. Sahoo, PUFÉ Transactions, *The Resolution Professional*, 2022, at 14-18.

(PUFE) transactions can improve recovery from such transactions and provide more teeth to Resolution Professionals and Liquidators in pursuing them. Continuous capacity building through investment in training and development of Insolvency Professionals, judges, and other stakeholders involved in the IBC ecosystem, as well as encouraging research and academic engagement, can help address emerging challenges in insolvency resolution.²²

The introduction of the Insolvency and Bankruptcy Code has undeniably transformed India's corporate credit culture. By shifting the balance of power from debtors to creditors, introducing time-bound resolutions, and creating a more transparent and predictable insolvency resolution framework, the IBC has addressed many of the long-standing issues in India's credit ecosystem. The impact of the IBC is evident in the reduction of wilful defaults, improved recovery rates, and the behavioral changes observed in both borrowers and lenders. The Code has not only served as a mechanism for debt resolution but has also emerged as a tool for deterring defaults and promoting financial discipline among corporates.

However, the journey of transforming India's corporate credit culture is far from complete. Challenges such as delays in the resolution process, the liquidation bias, and issues related to value maximization need to be addressed to further enhance the effectiveness of the IBC. The recommendations proposed in this paper can contribute to the continued evolution of the IBC framework. As India aims to become a \$5 trillion economy, a robust and efficient insolvency resolution mechanism is crucial for maintaining the health of the financial system and promoting sustainable economic growth. The IBC, with its focus on value maximization and balancing stakeholder interests, has laid a strong foundation for a more resilient corporate credit culture.²³

The transformation brought about by the IBC extends beyond mere financial metrics. It represents a fundamental shift in the way businesses approach financial management and credit relationships. By fostering a culture of financial discipline, transparency, and accountability, the IBC is contributing to the overall maturation of India's corporate sector. As the IBC continues to evolve, its impact on India's corporate credit culture will likely deepen and broaden. The Code's success in changing borrower behavior, improving creditor confidence,

²² Times of India (2021), 'Insolvency law's aim is biz rejig, not recovery', Sept 20, 2024 (<https://ibbi.gov.in/uploads/resources/dd1ba1872df91985ed1ca4cde2dfe669.pdf>)

²³ IBC Laws (<https://ibclaw.in/withdrawal-of-cirp-proceeding-pursuant-to-settlement-underinsolvency-and-bankruptcy-code-2016-by-advocate-shivam-jaiswal/>)

and providing a structured framework for resolving financial distress has set a new standard for corporate governance and financial management in India. This transformation, while still ongoing, promises to create a more robust, transparent, and efficient corporate credit ecosystem that can support India's ambitious economic goals in the years to come.²⁴

In conclusion, the Insolvency and Bankruptcy Code has undeniably been a transformative force in India's credit landscape. By addressing long-standing issues in the insolvency resolution process, empowering creditors, and fostering a culture of financial discipline, the IBC has laid the foundation for a more robust and efficient credit market in India. While challenges remain, particularly in terms of capacity building and balancing diverse stakeholder interests, the IBC's dynamic nature and responsiveness to market needs bode well for its continued evolution.

As India aims to become a \$5 trillion economy, a robust insolvency framework will be crucial in ensuring efficient allocation of capital and fostering a vibrant entrepreneurial ecosystem. The transformation of India's credit culture under the IBC represents not just a legal or economic shift, but a fundamental change in the way businesses, lenders, and regulators approach financial relationships and corporate distress. As the code continues to evolve and mature, its role in shaping a more resilient, transparent, and dynamic credit market in India is likely to be increasingly significant, contributing to the country's broader economic goals and aspirations.

²⁴ IReddy, Y.V. (2004). Credit Policy, Systems and Culture, Reserve Bank of India Bulletin, March, p. 311. (<https://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/53086.pdf>)